

INFLUENCE OF MACRO-ENVIRONMENTAL FACTORS TO THE PROCESS OF INTEGRATING A FOREIGN BUSINESS ENTITY

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ABSTRACT

Multinational companies and firms who are going to establish subsidiaries and business entities in foreign countries or on international markets have to deal with many different influencing factors during the integration process of the subsidiary to the origin company. Macro-economic factors as well as intercultural dimensions have to be considered in such a complex venture. This research project focuses on the influence of macro-economic factors and the intercultural differences to the integration process. The aim of the research project is how macro-economic factors and intercultural differences influence the integration process of a new foreign business entity to the origin company and which preventive actions can be derived from correlations which occur from the empirical model to increase the efficiency of the integration process. Three main dimensions in this research project are going to be interlinked: The macro-economic factors, the intercultural dimensions and the integration process.

Keywords: Multinational companies, Macro-economic factors, Integration process, Intercultural dimensions

INTRODUCTION

Globalization and Internationalization are terms which became common in many economic industries (Adler 2008, 5). When we look at the automotive industry, the electronic industry, the communications industry, the clothing industry, food industry or even the pharmacy industry, only to mention a few examples, are spread all over the world and the business models of many companies acting in one of these industries often really are globalized or at least multi-national. And this process even has started some decades ago. This is the reason why the importance of multi-national-companies increased rapidly in this short period of time. Micro- as well as macro-economic factors influence the economic activities of such complex company networks. The influencing factors can be seen from the internal point of view of a company, defined as the so called micro-economic factors (Mussnig 2007, 41) and from the outside point of view, the so called macro-economic factors (McCarthy 1975, 37). Focusing on the outer point of view of a company and its activities, following situation becomes obvious. The more complex such a company network, the more important the external influence factors become. And in this way, also the cross-cultural differences become of critical importance (Adler 2008, 12) for the success of multi-national business activities.

This research project focuses only to the external influence factors, the macro-economic factors and the cross-cultural differences, which may influence the integration process of a new foreign business entity to the origin company.

What's new in this research project?

For each of these external factors, that means for the macro-economic factors as well as for the cross-cultural dimensions and for the integration process itself, quite a deep research has already been done by many researchers and results are available. But there still exists a lack of research results for the whole view of such a complex process. Which of the external factors influence the integration process and which preventive actions are necessary to increase the probability of a successful integration of a foreign business entity?

Who can benefit from this research project?

Companies who want to go abroad and enter new markets and new countries or companies who have already external business entities and want to increase the success and efficiency of the integration process. Managers, who need to base their decisions on founded research results and decreasing therefor the number of gut feeling decisions. A more sufficient integration process saves costs, time, personal efforts and increases the performance level of a multi-national company.

CHANGES IN BUSINESS BEHAVIOUR BY EXPANSION

The expansion of companies leads to changes of the business environment and the business behavior. How such a change of business behavior can look like, demonstrates the dynamic expansion model of Hakanson (Haas 2006, 691). The model of Hakanson is made like an onion. The inner core describes the regional economic area of a company. This is followed by the next dimension, the home country. And the outer ring is divided into four segments of external markets: The “Development Countries”, the “Industrial Countries”, the “Newly Industrialized Countries (NIC)” and the “Protected Markets”. The protected markets are characterized by special entry barriers (Haas 2006, 691).

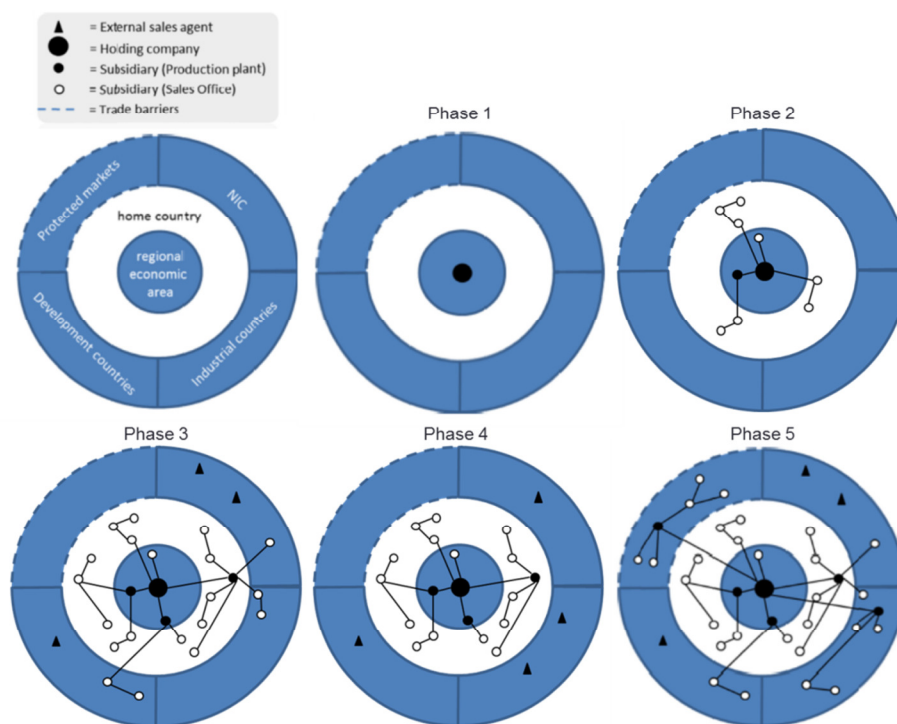


Figure 1: Model of expansion process (Haas after Hakanson 2006, 691)

Phase 1 describes the first stage of a company. This is the founding or establishing phase. Only one company site exists. All functions to run a company are done by one single site. The Phase 2 describes the increase of domestic market penetration to strengthen the market position. The aim of the next phase during expansion is the densification of the national market and establishing external sales agents in external markets. Not included are the protected markets due to the higher entry barriers and therefore higher risks. Phase 4 now deals with the aim in establishing own sales offices and subsidiaries in foreign markets to increase the market domination. In the last phase during the expansion process, entering the protected markets with entry barriers and ongoing market densifications of already entered markets is the final stage of Hakanson's expansion model (Haas 2006, 692). Entering new markets in foreign countries always

are combined with certain risks. Unknown environmental conditions influence the business activities which lead to the next important topic: The upcoming challenges by going multi-national or going global.

UPCOMING CHALLENGES BY GOING MULTINATIONAL OR GOING GLOBAL

Due to the acceleration of on-going globalization and internationalization (Adler 2008, 5), companies are going to be even more often forced with these factors. The more a company is going to be multi-national or globalized, the more intensive are the macro-economic factors which influence the company and its activities. Integrating a new foreign business entity into the origin organization requires to consciously considering about the macro-economic environment as well as cross-cultural differences. This becomes even more important the higher the globalization level of a company is. Cross-cultural differences and macro-economic influence factors become of critical importance in such complex company networks. Adler (2008, 12) describes in a matrix, which challenges come up during expansion.

	Domestic Phase	Multidomestic Phase	Multinational Phase	Global Phase
Strategy	Domestic	Multidomestic	Multinational	Global
Primary orientation	Product/Service	Market	Price/Cost	Strategy
Perspective	Ethnocentric	Polycentric or Regiocentric	Multinational	Global/Multicentric
Cultural sensitivity	Marginally important	Very important	Somewhat important	Critically important
With whom	No one	Clients	Employees	Employees and clients
Level	No one	Employees and clients	Managers	Executives, managers, employees and clients
Strategic assumption	“One way” or “One best way”	“Many good ways” Equifinality	“One least-cost way” Simultaneously	“Many good ways”

Figure 2: Corporate cross-cultural evolution (Adler 2008, 12)

This matrix gives a clear picture about the changings of different perspectives of a company during the expansion process. The cultural sensitivity for example has not that importance if a company is still in the domestic phase with only one single site. But if a company expands, this perspective becomes of critical importance for the company and its activities. And this starts already by the integration process of a new foreign business entity to the origin organization. As an additional remark to Adler’s corporate cross-cultural evolution matrix as shown in fig. 2, the important aspect of the situation of suppliers Adler did not directly describe or consider. By going across borders it is of

critical importance if current suppliers can still serve the demands of the company. If not, the expanding company needs to look for new sources and in certain issues it is necessary to get local ones. Therefore it is necessary to check beforehand the situation of the suppliers, their ability to go with the company or still to serve the company's needs, the strength of the supplier's bargaining power (e.g. strong dependency of the company to the products or services of the supplier) and the number of available and considerable suppliers (e.g. monopolistic or oligopolistic situation).

AIM OF THE RESEARCH PROJECT

The aim of this research project is to improve the probability of success and increasing the efficiency of the integration process of a new foreign business entity to the origin organization. Reaching this aim needs to do following four steps:

- Analyzing the macro-economic influence factors by literature research and by using the PEST-Method (Pfaff 2004, 95). The abbreviation PEST stands for P...Political, E...Economical, S...Social, T...Technical. These are four main groups of macro-economic factors. Each of these groups consists a number of sub-economic factors which will be used for measuring the influence.
- Analyzing the cross cultural influence factors by literature research and by harking back to the research results of Hofstede (2001, 29) and his famous five dimensions for cross-cultural differences. These are the power distance (PDI), uncertainty avoidance (UAI), individualism versus collectivism (IND), masculinity versus femininity (MAS) and long-term versus short-term oriented persons (LTO).
- Testing the correlations between the macro-economic influence factors and the cross-cultural differences to the integration process is the core goal of the research project. An empirical model will be created to measure which factor has influence to the efficiency of the integration process. The efficiency of the integration process will be measured with five characteristics: Time, Cost, Duration, Customer Retention, Efforts.
- Correlations of macro-economic factors to the integration process bringing the opportunity to derive preventive actions before starting the integration process. This helps companies to enhance the sufficiency of the process.
- The derived preventive actions are going to be formed as recommendations for companies. How to proceed beforehand if correlations show that the probability is high to run into troubles or uncertainties when not considering certain circumstances and influence factors. This definitely should help companies to run such complex ventures with a better performance and less uncertainties which again should save cost, personal efforts, time and shall increase the satisfaction of the staff, the customers, the suppliers and all other stakeholders.

THEORETICAL BACKGROUND

Macro-Economic Factors

Approach of McCarthy (1975, 37): Can be divided into five different segments: Cultural and social environment, resources and objectives of firm, existing competitive business situation, economic environment and political and legal environment.

Kieser and Kubicek (1976, 61, 224) saying, differences in organization and structure of a company are influenced also by external factors. These can for example be: task-specific environment, competitive situation, customer structure, dynamic of technology, global environment, social conditions, and cultural conditions.

Mussnig (2007, 41) says, that a company only can be successful if it can manage to use its own potentials and to attune that to the company's environment.

Skinner (1964, 125) divides the environmental factors of a company into four segments. Technical system, political system, cultural system and economic system.

Ansoff (1965, 1997) developed the term of "double strategic fit". This term describes, that the organization of a company has to adapt and link its own strategy on the one hand to the structure and culture of the company itself (internal fit) and on the other hand it has to consider also the requirements of the environment (external fit) and to link it the strategic direction.

This is an important issue. First a company has to understand and consider the external environment. The strategy and organization has to going to be adapted to the external influencing factors to get being successful. Also in terms of multi-national companies, this external fit increasing on importance, because differences become more and the influencing factors increase too.

Mintzberg (2009, 173) says "Every managerial job is situated in some external context, which can be taken to mean its cultural milieu, its sector in general, and its "industry" in particular."

This paper includes also specific sub-characteristics of the macro-economic factors. Already in the 1970ies Skinner (1964, 125) has defined following sub-economic factors which still are valid even in these fast changing environments: Relative costs of labour, materials, overhead, capital, equipment, availability of credit taxes, stability-inflation-growth, cyclical activity, forecastability, foreign exchange, competition, tariffs, distribution system, mass media for communication. In addition to these mentioned sub-economic factors by Skinner, also the availability of talents and skills, the purchasing power of people (e.g. level of income) are important factors for companies who are going

to join new countries. Especially if joining upcoming and emerging markets such as the so called BRIC states (Brazil, Russia, India, China) or the MIST states (Mexico, Indonesia, South Korea, Turkey). Karlsson et al. (2012, 176) found out that it seems that regions with low education and skills have stronger rates of out-migration which may be a reflection of skilled workers being more likely to leave less-educated regions because of diminishing employment opportunities. So, companies have to consider about the educational and skilled situation of the country they are going to join.

Intercultural Dimensions

Doing business with a subsidiary in a foreign country always has to do with cross cultural management. This means, every single individual person has to think about the differences in terms of culture (Trompenaars 1994, 13) and to consider about that. Trompenaars' research to the cultures consists three parts of the basic differences: human relationships, the feeling and interpreting of time and the attitude to the environment (Trompenaars 1994, 21).

Change Management is also a part of the integration process. After a merger or acquisition venture or building a new subsidiary in a foreign country, all people which are involved (direct or indirect) into this venture are forced by changes. This change always consists unfreezing, moving (changing), freezing (Orgland 1997, 14).

Hofstede (2001, 29) describes the five different national societies as follows: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity and long-term versus short-term oriented persons.

Hofstede focuses mainly on differences of national societies. In his field of research he does not consider about the corporate cultural differences of the companies itself (the micro-economic point of view). This paper focuses only to the influence of macro-economic factors to the integration process of two or more different business entities. But the interlinking process of these two dimensions includes also the corporate cultural differences of the business entities which have to be connected. *“Corporate culture: you cannot see it, touch it, smell it, taste it, or hear it, but it is there. It pervades all aspects of organizational life, and it has a profound impact on organizational success and failure. If managed effectively, it is a real economic asset. If managed ineffectively or allowed to deteriorate, it can become a true economic liability and even lead to organizational failure.”* (Flamholtz 2011, Preface xi). The definition of Flamholtz shows the importance and complexity of corporate cultures. These “inhouse”-cultures are influenced by many different factors and they are not only internally driven by company values, norms, strategy, managerial behavior but also by external factors. Stanford (2011, 8) defines three different dimensions for external drivers of corporate culture:

- The organizational regulatory and tax compliance requirements.

- External relationships with governments and communities.
- The legal frameworks and mutual expectations surrounding the rights and responsibilities of workers and employers, e.g. whether employees are barred from joining a union.

Corporate culture not only is driven by internal or in-house factors but is embedded in a complex framework with different internal as well as external influence factors. By integrating a new foreign business entity into the origin company, also two different corporate cultures have to be combined which is a complex venture to handle.

Integration Process

Hambrick and Snow (1989, 84) write: “Integration and human resource management are dependent upon one another to the degree that structuring a firm’s global activities involves the deployment and use of human capital and other human aspects.”

Chakrabarti (1990, 263): “Integration is defined as the quality of the state of collaboration between the organizational units.”

Haspeslagh, Jemison (1992, 106): “Integration is an interactive and gradual process in which individuals from two organizations learn to work together and cooperate in the transfer of strategic capabilities.”

Lindgren (1982, 61): “[...] the concept of *integration* refers to the process through which changes in various systems in the acquired subsidiary are undertaken.”

Reineke (1989, 10) says, that under, *Integration*‘ or *Involvement*‘ it is understood, by using the right instruments and processes an initiation of changes of culture, structure and processes happens. This can mainly be seen by overtaking subsidiaries.

Sautter (1989, 257): The “Integration” includes the embedding of the acquired company into the strategic structure of information of the whole enterprise.

Scheiter (1989, 257) defines the term “Integration” means the consolidation and affiliation of systems, structures, resources and cultures of two business entities to reach a common economically target.

Schoenauer (1967, 32): “The process of bringing together the parts, the human resources in this instance, and making them into a new whole is the integration process.”

Whitaker says, that “there are many kinds of integration, depending largely on the structure of the acquisition deal.” (2012, Chapter 2).

Gerds (2000) did a scientific research of post-merger integrations in reference to different influences which leads to a successful relationship of two companies. He is dealing with diverse integration goals combined with dimensions of the structuring of the integration and entry barriers. This is followed by integration speed and *integration* success (Gerds 2000, 155).

For the globalization and internationalization process, Dülfer and Jöstingmeier (2008, 134) divide this kind of strategy into two basic directions:

- Strategy of global integration.
- Strategy of local accommodation.

The approach of the global integration means, to sell the same products to a high number of worldwide spread countries with similar marketing activities.

The approach of local accommodation is based on the adaption and accommodation of the products and the marketing activities to each of the local conditions.

Reineke (1989, 50) differs the kind of integration into four forms:

- *Integration* can be seen as the ideal form of acculturation which allows a balance between high own culture conservation and adaption to the culture of the new company/country.
- *Assimilation* means a successful acculturation but with low conservation of the culture of the new company/country.
- *Segregation* means a negative acculturation with high conservation of the own culture.
- *Deculturation* can be seen as an unsuccessful acculturation with a low amount culture conservation of the new company/country.

After Gancel/Rodgers/Raynaud (2002, 125) the integration process can be divided into four steps: Preparation, Transition (1 year), Integration (2-3 years) and Consolidation (after 3 years). This gives an evidence for the duration of such complex projects.

It can be seen that the literature offers a lot of different terms, expressions and approaches for the integration process itself. The term "Integration", as it is meant for this research project, strongly follows the approaches after Reineke (1989, 10) and Scheiter (1989, 257) who are describing similar situations with their definitions. The following research work will take out some excerpts mainly from these two approaches and integrates them into the causal model by trying to interlink them with macro-environmental influence factors.

INTERLINKING OF THE MACRO-ENVIRONMENTAL FACTORS

The process of interlinking each of the macro-economic factors and cross-cultural differences to the integration process is one of the most critical procedures during the expansion process. Only if the managers know which macro-economic influence factor or which cultural dimension has an influence to the integration process, they can pro-actively act against certain obvious problems.

This research paper focuses on the interlinking of following factors:

- Political and legal factors
- Economic Factors
- Social Factors
- Technological Factors
- Power Distance
- Individualism versus Collectivism
- Uncertainty Avoidance
- Masculinity versus Femininity
- Long Term Orientation versus Short Term Orientation

This macro-economic and cross-cultural dimensions which can influence the integration process of a new foreign business entity are going to be measured and will be put into an empirical model to measure their influence to the efficiency of the integration process.

RESEARCH DESIGN

The theoretical analysis shows on the one hand quite a high number of different terms and definitions of macro-economic factors. But on the other hand the factors are often quite similar and sometimes described more in detail and sometimes more general. For this research project the more detailed approaches are going to be used. These factors will be summarized to five major macro-economic factors derived from the PEST-approach (Political, Economical, Social and Technological). To measure the influence of cross-cultural differences to the integration process the five dimensions from Hofstede (2001, 29) are going to be used in this empirical study. The integration process itself is divided into five different outcomes.

These are:

- Duration,
- Efficiency of production (cost/profit),
- Quality,
- Personal efforts,
- Customer satisfaction.

The data are going to be investigated by structured interviews of experts who are experienced with complex company networks, with foreign subsidiaries, with integration processes and/or global business models. These structured interviews allow a quantitative empirical evaluation of this research project.

The data gained by the structured interviews will be used for a causal model to find out correlations of macro-economic factors and cross-cultural differences to the integration process. Figure 3 shows the causal model for this research project.

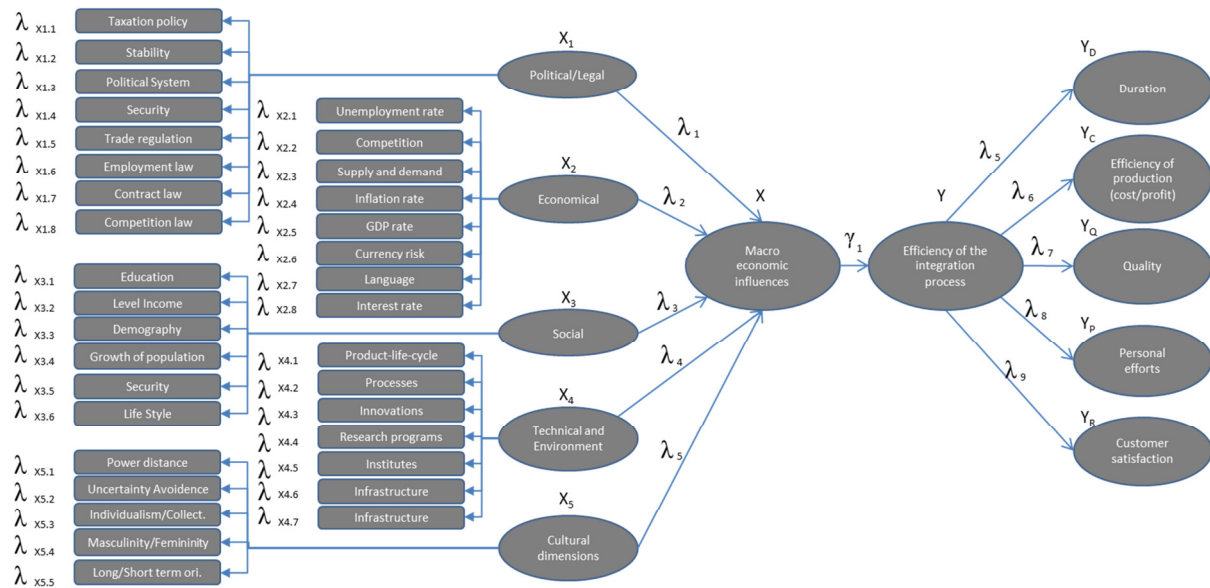


Figure 3: Causal model for measuring the efficiency of an integration process (Author)

If correlations from the macro-economic factors and cross-cultural differences to the integration process occur out from this empirical causal model, preventive corrective actions can be taken to increase the efficiency and the probability of success of the integration process. This helps to keep the duration as short as possible, to safe unforeseen costs, to keep the quality on a higher level, to better calculate personal efforts and to keep the customer retention.

CONCLUSIONS

Integrating a new foreign business entity to an existing organization is a complex and time, cost and personal efforts intensive venture which is in addition to these mentioned factors usually not the daily business of a company.

The literature research shows a lot of perfectly research results of the macro-economic factors, the cross-cultural differences and the integration process. Each of these three major issues is quite deeply analyzed. But there is still a lack of research for the whole process and the interactions of the external factors to the integration process.

It can easily be seen that many different external endogene variables are able to influence the integration process. Finding out the “real” influencers of the integration process may help to increase the efficiency of such a project. But this is still a difficult issue. Interacting correlations of different influence factors have to be considered in this research project. It is necessary to get a representative number of experts in this research field to get out founded data. Therefore it is necessary to interview experts from different economic branches, such as the automotive industry, the electronic industry, the clothing industry, the food industry, etc. The experts need to fulfill certain requirements such as experience in integration processes, managerial position, cross-cultural understanding, etc. If these framework conditions are fulfilled and the data gained out of the structured interviews show correlations in the causal model, deriving and preventive actions can be taken to increase the efficiency of the integration process and to enhance the probability of success of such a complex venture.

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